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RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0384
RUEHAK/AMEMBASSY ANKARA PRIORITY 3975
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1792
RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0179
RUEHKO/AMEMBASSY TOKYO PRIORITY 1659
RUEHIT/AMCONSUL ISTANBUL PRIORITY 2228
RUEHBS/USEU BRUSSELS PRIORITY
RHMFISS/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUEHVEN/USMISSION USOSCE PRIORITY 2658
RUEAIIA/CIA WASHDC PRIORITY
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RUEKJCS/JOINT STAFF WASHDC PRIORITY
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RUEKJCS/SECDEF WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L ASHGABAT 000829

SIPDIS

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SUBJECT: TURKMENISTAN: GOVERNMENT CONSIDERING CHANGES TO
ONSHORE PRODUCTION POLICY?

Classified By: CDA RICHARD E. HOAGLAND: 1.4(B), (D)

11. (C) British Petroleum (BP) is continuing its efforts to register a new office in Ashgabat -- although very slowly, the company's Country Manager for Turkmenistan told EmbOff during a July 3 meeting. For the time being, the country manager is continuing to commute between his home in Baku and Ashgabat, spending a few weeks at a time in Ashgabat.

12. (C) While BP came to Turkmenistan looking for an agreement to carry out offshore hydrocarbon production, the country manager told EmbOff that authorities in recent weeks have begun urging the company to set its sights broader and to submit a proposal to drill for hydrocarbons throughout Turkmenistan, including onshore. BP is now reviewing its bid to decide how an onshore program would fit into the company's overall strategy for Turkmenistan.

13. (C) COMMENT: Turkmenistan hoped to restrict foreign participation in hydrocarbon production to its offshore blocks in the Caspian Sea, leaving its vast gas reserves onshore to be worked by its own state entities with the help of foreign-company service contracts. However, it is becoming increasingly clear that Turkmenistan's state entities will be unable to increase production of gas to the levels that Turkmenistan needs to fulfill its guarantee to China to export 30 bcm per year beginning in 2009, or even to meet Gazprom's increasing demands. (NOTE: Turkmenistan in 2007 produced about 72 billion cubic meters (bcm) of natural gas, which was barely enough to cover existing contracts and domestic consumption. The president called for production to be increased to 81.5 bcm in 2008, but Turkmenistan's gas production this year reportedly is lagging behind plan, suggesting that the country will not be able to produce even that volume, far less the 100 bcm-plus volumes that Turkmenistan must reach by 2009 if it is to fulfill its

contract to China without incurring substantial penalties.
END NOTE.) Although Turkmenistan's senior officials continue
to maintain their "we-can-do-it-ourselves" line in official
meetings, others at the mid-level have indicated growing
recognition Turkmenistan may need the technology, expertise,
and capital that major Western oil firms can bring to onshore
investment. That government officials are now urging BP to
consider bidding on onshore projects -- surprising but
welcome news -- is an indication that upper-level officials,
possibly including the president, have acknowledged reality
and are seeking to expand their menu of potential onshore
partners, hoping to benefit from the competition among
foreign firms. END COMMENT.
HOAGLAND